



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Washington State Dairy Products Commission

For the period January 1, 2019 through December 31, 2019

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**Office of the Washington State Auditor
Pat McCarthy**

March 8, 2021

Board of Commissioners
Washington State Dairy Products Commission
Lynnwood, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Commission operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Commission's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Commission operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Commission could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Washington State Dairy Products Commission from January 1, 2019 through December 31, 2019.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 15.44.060 for the Dairy Products Commission, which requires the Office of the Washington State Auditor to examine the financial affairs of the Commission. Our audit involved obtaining evidence about the Commission's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Financial condition
- Conflict of interest – compliance with Commission policies
- Travel reimbursements – compliance with policies for international travel and executive events
- Procurement – compliance with policies for service contracts and purchases

- Payroll – review of retroactive pay and hiring processes
- General disbursements – review purchases for compliance with policies and state statutes

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-001 The Dairy Products Commission did not have adequate controls in place to disclose, assess and document potential conflict of interests that may exist for Commission officials and personnel.

Background

The Dairy Products Commission (Commission) is responsible for developing policies and procedures to identify and mitigate potential conflicts of interest among Commission officials and personnel. This includes mitigating the appearance of a conflict of interest.

We reviewed the Commission's conflict of interest policies and procedures and determined its Employee Manual discusses conflict of interest. However, the Employee Manual does not outline the required procedures to document potential conflicts of interest. The Employee Manual only states that a potential conflict must be reported immediately to the Executive Director, who then reports it to the Commission Board.

The Manual addresses outside employment, stating that outside employment must be pre-approved by the Executive Director using a Request for Approval of Outside Employment form.

Description of Condition

During the audit, we identified two potential conflicts of interest, as follows:

Hiring of the former Chief Innovation & Inclusion Officer

The Commission hired the Chief Innovation & Inclusion Officer (CIIO) on January 1, 2019. The CIIO was also a consultant from October 2018 to February 2020 while the individual was a Commission employee. We determined the CIIO, while acting on behalf of the Commission, contracted with the consulting firm for services from January 2019 to January 2020.

There was no documented evidence the CIIO completed the required Request for Outside Employment form or that it was pre-approved by the Executive Director.

Former Executive Director and Vendor Services

During the audit, we reviewed disbursements for branded promotional items. The total amount paid in 2018 was \$87,888 and consisted of over 40 invoices, several of which were made on the same day. The total paid in 2019 was \$29,553 and consisted of eight invoices.

Our audit determined the former Executive Director and the owner of the promotional company served together on the board of an outside organization. There was no documented evidence the former Executive Director disclosed his outside affiliation to ensure appropriate controls would be put in place to mitigate potential conflicts of interest.

We determined the products purchased were similar enough to be considered a single purchase of services. The Commission did not enter into a contract with the vendor and the Commission could not provide evidence that the vendor was awarded using a competitive solicitation process, as required by state law.

Cause of Condition

Although the Commission's Employee Manual mentions conflict of interest, it does not establish the required procedures to disclose, assess and document potential conflicts.

The Commission's procedures did not ensure vendor contracts were awarded in compliance with applicable procurement requirements or that contracts were entered into for goods and services rendered.

Effect of Condition

The Commission did not identify and assess potential conflicts of interest between Commission officials and personnel. As a result, the Commission was not able to reduce or mitigate the appearance of a conflict of interest regarding the hiring of Commission personnel.

The Commission did not comply with applicable procurement and contract requirements. This also increased the risk that a conflict of interest existed, in fact or appearance.

The lack of established guidelines increases the risk that potential conflict of interests is not disclosed, assessed and documented in a consistent manner to mitigate the appearance of a conflict.

Recommendations

We recommend the Commission:

- Establish written policies that outline required procedures to disclose and assess any potential conflict of interests or outside employment at the time of, and during, employment

- Ensure the evaluation of any potential conflict of interest or outside employment is performed and documented for all Commission officials and personnel
- Ensure employees complete the required Request for Approval of Outside Employment form and that those forms are reviewed and approved by the Executive Director
- Strengthen internal controls over the establishment of vendor contracts to ensure the Commission complies with applicable procurement requirements

Commission's Response

The Commission recognizes the recommendations of the auditor. The Commission has already made improvements to internal controls prior to these recommendations and will proceed with formal written policy changes during 2021. The Commission's current policy regarding outside employment during employment and Request for Approval of Outside Employment Form will be updated and will require review and acknowledgement by each employee at the time of employment, and annually, to ensure any outside employment is disclosed and reviewed by the Executive Director for approval. The Commission currently requires each employee to complete necessary contract training courses required by the state prior to any procurement. Each potential contract is reviewed by management and the Executive Director, with required board approval above established threshold per policy. The Commission will review and update its written policy regarding procurement to reflect current internal controls during 2021.

Auditor's Remarks

We appreciate the cooperation and assistance during the current audit and acknowledge the Commission's commitment to improving the conditions described above. We will review the status of the issues during our next audit.

Applicable Laws and Regulations

RCW 42.52.020 – Activities incompatible with public duties, state:

No state officer or state employee may have an interest, financial or otherwise, direct or indirect, or engage in a business or transaction or professional activity, or incur an obligation of any nature, that is in conflict with the proper discharge of the state officer's or state employee's official duties.

RCW 39.26.120 – Competitive solicitation, states:

(1) Insofar as practicable, all purchases of or contracts for goods and services must be based on a competitive solicitation process. This process may include electronic or web-based solicitations, bids, and signatures. This requirement also applies to procurement of goods and services executed by agencies under delegated authority granted in accordance with RCW 39.26.090 or under RCW 28B.10.029.

Commission Employee Manual - Policy Number 150 - Conflicts of Interest/Outside Employment, states:

The commission authorizes its staff members to engage in employment outside the commission subject to the prior approval of the general manager, provided that such outside employment does not conflict or appear to conflict with employees' commission duties or in any way impact the quality of commission work performed by the staff member and overall productivity of the commission.

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE COMMISSION

The Washington State Dairy Products Commission was established by state law to develop, promote, educate and support Washington's dairy products and industry. It is funded by assessments on dairy producers and processors.

The Commission is governed by a nine-member Board of Commissioners appointed by the Washington State Department of Agriculture consisting of seven representatives of dairy producers, one representative of dairy processors and one representative of the Department of Agriculture. For fiscal years 2018 and 2019, the District received operating revenue of \$6.9 million and \$7.0 million, respectively.

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Washington State Dairy Products Commission at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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